DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED
30 SEPTEMBER 2017

SHARED INTEREST
INVESTING IN A FAIRER WORLD

SHARED INTEREST SOCIETY LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

Contents

REPORT OF THE DIRECTORS

Welcome to the financial statements of Shared Interest Society Limited for the year to 30 September 2017.

OBJECT AND PRINCIPAL ACTIVITIES

The Object of the Society is "to carry on the business of providing financial services, especially for production and trade, in a manner which reflects the principles of love, justice and stewardship which are fundamental to the faith of the Christian Church and are accepted by many other people of goodwill and compassion and in order to promote wholesome, dignified and sustainable employment for the benefit of people in need in any part of the world, particularly in poor countries".

Our mission is to provide financial services and business support to make livelihoods and living standards better for people as they trade their way out of poverty. We work collaboratively and innovatively with those who share our commitment to fair and just trade. With a community of investors and the support of donors and volunteers, we seek to contribute to a world where justice is at the heart of trade finance.

Shared Interest Society provides loans and short-term working capital facilities to organisations in the fair trade supply chain – producers in the developing world and buyers in the UK, US, Europe and Australia who work with such producers. This was extended to include some lending to organisations with similar values outside fair trade, after our strategic review in 2014. Shared Interest Foundation, the wholly owned charitable subsidiary of the Society, works mainly through training and capacity building work with producer organisations in the developing world.

CORPORATE STATUS

The Society is incorporated with limited liability as a Registered Society under the Co-operative and Community Benefit Societies Act 2014, registration number 27093R. Net profits after interest on the share capital may ultimately be distributed, not to members, but either as a rebate on charges to customers or applied for charitable purposes.

MEMBERS AND CAPITAL

	2016/17	2015/16
New members	**705**	433
Accounts closed	**(248)**	(246)
Total membership	**9,689**	9,232
Amount invested	**£5.0m**	£4.9m
Amount withdrawn	**(£2.1m)**	(£1.8m)
Net investment	**£2.9m**	£3.1m
Total share capital	**£39.4m**	£36.4m
Average (mean) share account balance	**£4,063**	£3,946

The Society still holds £290k (2016: £316k) in unclaimed loan stock from former issues and for which investors have not given instructions regarding repayment or conversion to share capital. This is held in short-term creditors in the Statement of Financial Position.

BUSINESS REVIEW

A report on the Society's affairs and business during the year and its future prospects is contained in the Annual Review which is available on request in hard copy to all members of the Society and is published on the website.

CHARITABLE DONATIONS

There are no charitable donations being proposed in this year's financial statements.

RESULTS AND APPROPRIATIONS

The financial statements of the Society for the year ended 30 September 2017 follow this report.

The profit for the year before provisions, tax and interest to members was £712k (2016: £660k), which was encouraging given the expected reduction in bank interest earned, discussed further below. After provisions for bad and doubtful debts, tax and member interest, the loss for the year was £24k (2016: £669k).

The Directors propose to pay interest on share capital at 0.25% for the financial year to 30 September 2017. Share interest is calculated on the daily balance at a rate fixed by the Directors and notified to members.

The greater part of the Society's lending is in foreign currency of which about 75% (2016: 77%) is denominated in US Dollars. Pound Sterling and Euro denominated customer interest rates were retained at similar levels in 2016/17 compared with the previous year but US Dollar lending rates increased three times by 0.25%, following rises in US base rates throughout the year. A greater volume of lending and favourable US Dollar and Euro exchange rates have led to an increase in credit charge income of £263k. Note 20 to these financial statements shows that we made payments of over £62m (2016: £62m) to producers directly and on behalf of buyers during the year and this was record-equalling for the Society.

Deposit income for the Society has continued to decrease, as forecast, from £450k in 2016 to £147k, as UK interest rates remained low throughout the year and as a result of the new banking relationship with Santander UK plc. Under this arrangement the Society earns a very low rate of credit interest overall from its deposits with the Bank but also pays a lower margin to borrow the currency that it needs for its lending, than it did under the former banking relationship with the Co-operative Bank. The increase in credit interest earned from the Society's lending, the reduction in deposit income and the effect of donations from members, mean that total income for the Society is marginally higher (£6k) than the year to September 2016.

The Co-operative Bank continued as our main banker until January 2017 when the switch to Santander, described in last year's financial statements, was completed. This change, which was discussed at the AGM and member meetings in the Spring, reflects the fact that the Co-operative Bank, with which we have worked since Shared Interest's inception in 1990, is no longer structured to work with large, complicated customers such as the Society, making high numbers of international payments. Following an extensive search and careful consideration of the ability to provide the services we need – which means working with a large international bank – and the ethical standing of these larger organisations, we are pleased to have commenced a relationship with Santander, which we hope will be long-term. We are however maintaining a current account relationship with the Co-operative Bank and members can continue to invest through that route.

An explanation of the bad debt charge in the Statement of Comprehensive Income, including an analysis of the movement in the provision, is shown in note 12 on page 16. The charge for the year has reduced to a more "normal" level, £664k from £1,212k in 2016, a figure which included an exceptional provision in the sum of £727k in relation to a long-standing producer customer in the African portfolio.

We seek to maintain a match of currency assets to liabilities to minimise the impact of exchange rates on our trading results. Borrowing the foreign currency that we lend means that exchange rate changes affect the value of the asset (the balance owed by our customer) and the liability (our borrowing from the Bank) equally and that we can avoid speculative gains and losses being created through exchange rate movements. However, this mechanism is dependent on a borrowing facility from the Bank and this is denominated in Pounds Sterling. The historically weak Pound Sterling since the UK Referendum result in June 2016 has meant that the value of our lending in Pounds Sterling has been higher than in recent years and in the first part of 2016/17 was very close to our facility limit, restricting the amount of new lending the Society was able to undertake. The increased share capital during the year, for which the Directors would like to thank all the Society's members – existing and new – and the new bank facility with Santander meant that we have been able to grow the work of the Society. Your ongoing support and increased future investment remain very important as we seek to continue this growth.

A breakdown of Administrative expenses is shown at note 4 on page 14, showing that these have increased by £26k from the previous year; a good achievement in a year when the full-year effect of the lower Pound Sterling value increased the running costs of our teams overseas.

The result still leaves Shared Interest Society with a very healthy Statement of Financial Position and accumulated reserves of around £1.42m over and above the Share Capital of £39.4m. In addition, specific bad debt provisions are in place in relation to debts where we do not believe that the full sum is recoverable, as explained in Note 12. The role of the Society, as it has stated over the years, is to "take and share risk", rather than pass on as much risk as possible to the borrower as many commercial lenders would try to do. This means that we must occasionally expect to experience bad debts and indeed we know that our members see it as important that we are prepared to do so, in order to achieve our mission. Whilst the provision for bad debts that we have made this year has returned to a more typical level, the Board has overseen some changes arising from the bad debt experience in 2016 – seeking to manage the financial risk to the Society whilst staying true to our purpose of supporting vulnerable producer groups where possible. These changes include increased vigilance around larger exposures, higher levels of information required in the due diligence around fixed term loan lending and a requirement for greater use of cashflow forecasts for larger export credit facilities. A member survey will be undertaken in early 2018 and this will consult members again on their views of an appropriate level of risk appetite for the Society, along with many other areas of our strategy and operations.

INVESTMENT POLICY

The Society continues to deposit most of its capital and reserves in cash deposits with its main banker (Co-operative Bank until the end of 2016 and Santander from January 2017). Earlier in 2016 some of these were also diversified and held with other counterparties (banks or building societies) but in the aftermath of the EU Referendum vote and a much weaker Pound Sterling it was necessary to move virtually all deposits to our main banker, to provide cover for our currency borrowing. It is from this currency borrowing that we make our loans and working capital facilities available. The deposits referred to above are to be distinguished from our deposits with social banks, which directly further the Society's object (see Accounting Policies). The Board is investigating other options for investment of any funds not being lent, in order to seek to optimise returns – taking into account financial security, the mission of the Society and the requisite liquidity.

COUNCIL

The Council is appointed from members and may require the Directors to give a report to it on the progress of the Society's business and to answer questions on the Society's business. Six members are chosen randomly from the membership and stand for election at the next AGM, with the remaining three places filled by contested elections. The following members served on the Council during the year:

	Year first appointed
Malcolm Nunn (retired AGM 2017)	2011
Sue Cotterell (retired AGM 2017)	2012
Liz Murphy	2013
Rod Gilpin	2013
Ashley Wyatt (Joint Moderator)	2014
Tony Allchurch (retired AGM 2017)	2014
Martin Canning (Joint Moderator)	2015
Kate Roberts	2015
Ben Quashie	2016
Katarina Diss (from AGM 2017)	2017
Geoff Shearn (from AGM 2017)	2017

Rod Gilpin, a randomly-chosen member, is retiring at the AGM in 2018 and will offer himself for re-election. Martin Canning, a non-randomly chosen member, is retiring by rotation and offering himself for re-election. As Martin acts as Joint Moderator of Council, it has been decided by Council that this will be an un-contested election. Andy Normandale has recently been randomly-selected to complete the complement of Council members and will stand for election at the 2018 AGM.

DIRECTORS

The following members served as Directors during the year and to the date of signing of these financial statements:

	£1 shares held	**Year first appointed**
Patricia Alexander	9,151	2006
Tim Morgan	500	2010
Pauline Radcliffe	497	2011
Keith Sadler	1,831	2012
David Bowman	9,309	2012
Martin Kyndt	7,984	2012
Paul Chandler	534	2013
Mary Coyle (Chair)	1,004	2015

David Bowman and Mary Coyle will retire by rotation and offer themselves for re-election under Rule 34 at the AGM in March 2018. Attendance at Board meetings has again been high with all Directors attending each of the five Board meetings during the year. As permitted by the Rules of the Society, the Directors have the benefit of an indemnity which is a qualifying third-party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force.

ELECTIONS

The elections will be by postal ballot. The results will be announced at the Annual General Meeting in Gateshead on 9 March 2018.

OTHER EXTERNAL APPOINTMENTS

Below are shown the external directorships/trusteeships of the members of the Board of Directors and Senior Management Team.

Patricia Alexander **	Newcastle High School for Girls (Chair of Governors), St Oswald's Primary School (Governor)
Tim Morgan **	Ecology Building Society, Cafédirect Producers' Foundation (Company Secretary), Northern Dance
Pauline Radcliffe	Glasgow Clyde Education Foundation, Carnegie UK Trust
Keith Sadler	None
Martin Kyndt	Christian Aid, Sightsavers (co-opted member of Audit Committee), The British and Irish Churches Trust Ltd, Change Alliance Private Ltd (an Indian subsidiary of Christian Aid)
David Bowman	Corporate Responsibility (CORE) Coalition Limited (Chair), Director of Finance Mulberry Bush Organisation
Paul Chandler	The Co-operative Group, William Leech Foundation (Chair), Durham Cathedral Council (Chair), County Durham Community Foundation (Vice Chair), Bible Society, St Chad's College Durham (Governor)
Mary Coyle	North Tyneside CCG, Gentoo Group, Newcastle University Retirement Benefits Plan, Northumbrian Water Forum (member)
Kerrey Baker *	Millin Trust

** Member of Senior Management Team and Board
* Member of Senior Management Team

STATEMENT OF DIRECTORS' RESPONSIBILITIES

We are required by law to prepare financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice, which give a true and fair view of the state of affairs of the Society at the end of the financial year and of the profit for the period to that date. In preparing those financial statements, we are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Society will continue in business.

We are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and to enable us to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014. We are also responsible for safeguarding the assets of the Society and for taking reasonable steps for the prevention and detection of fraud and other irregularities, such as money laundering. The financial statements to the year 30 September 2017 have been prepared under the FRS 102 accounting standard, for the second time. The presentation of results, statement of financial position and accompanying notes changed under this standard which is designed to give greater comparability and transparency internationally, to financial statements. The Society has continued the approach adopted last year in regards to the amount of information provided in the financial statements and as a "small organisation" as defined within Company Law, it is reporting under Section 1A of FRS 102 meaning that no consolidation of the Society's results with those of the Shared Interest Foundation is included and we have also chosen not to present the cashflow statement because this was not useful to most readers of the Society's accounts.

GOING CONCERN

We are satisfied that the Society has adequate resources to continue to operate as a going concern for the foreseeable future.

CORPORATE GOVERNANCE

The Society has chosen to report against an appropriate governance code, and as explained in the financial statements last year we decided to report against the principles of Good Governance (a code for the voluntary and community sector). A revised version of this Code (now known as the Charity Governance Code) was issued during the year. Whilst this is aimed primarily at charities, the foreword notes: "Much of it will also apply to other not-for-profit organisations that deliver public or community benefit and those with a social purpose…" There are now seven (instead of six) key provisions contained in the Code – all centred round the way in which an effective Board will provide good governance and leadership. After carefully reviewing the provisions of the Code we believe that we are compliant, but recognise that we can always make improvements and see this as a continuing journey of better governance. We have reported against each of the seven provisions below:

Organisational purpose
The Board ensures that the organisation delivers its stated purpose by developing and agreeing a long-term strategy, agreeing and monitoring delivery of operational plans and budgets, evaluating results through financial and social accounts and by being subject to oversight by the Council of Shared Interest.

Leadership
Members of the Board understand their role and responsibilities collectively and individually and are assisted in this by training and induction, a qualified Company Secretary, involvement through their other work experience in areas relevant to the Society and through good governance processes such as a schedule of matters reserved to the Board. The Directors set and safeguard the mission, values and reputation of the organisation.

Integrity
The Board safeguards and promotes the reputation of the organisation and acts according to high ethical standards. This area is carefully assessed in any recruitment process with the Nominations Committee testing the alignment of candidates to Shared Interest's approach as a community benefit society acting co-operatively. A register of Directors' interests is maintained and published in these accounts to help ensure that any conflicts are managed properly and transparently.

Decision making, risk and control
The Board has established processes for seeking to

ensure that the organisation understands and complies with all relevant legal requirements. A strong control environment is maintained and elements of this are subject to periodic internal audit (carried out through an outsourced arrangement; as the Society is not large enough to support retaining its own internal auditor). The Board regularly identifies and reviews the major risks to which the organisation is exposed and has systems to manage those risks. Delegated authority to appropriate committees of the Board or the Management Team is carefully controlled. The Society maintains a schedule of matters reserved to the Board but it is a number of years since this was last reviewed and this will be refreshed during 2018.

Board effectiveness
Each year Board members contribute to a self-assessed evaluation of the performance of the Board and the Chair and individual objectives are agreed for each member of the Board. Individual performance against objectives and overall contribution to the Board is discussed annually in a meeting with the Chair. The Board has not used a triennial external evaluation of its performance and will consider whether this is appropriate to implement.

Diversity
The Board understands the value of diversity and that it is more effective if it includes a variety of perspectives, experiences and skills and ensures that the organisation follows principles of equality and diversity at all levels. Whilst the Society has succeeded in obtaining a reasonable gender balance over recent years (currently three women and five men) it has done less well in other areas of diversity at Board level and will consider how to redress this as vacancies arise.

Openness and accountability
The process of choosing Directors for the Board is conducted openly with a search amongst members of the Society, in the first instance, based on a needs-assessment at the time. A member of Council is part of the Nominations Committee and any Director co-opted to the Board must retire and offer themselves for election (or rejection) by the entire membership at the next AGM. Accountability from the Board is in the form of annual financial and social accounts, both of which are subject to audit, the AGM and – during 2016/17 – a series of five further membership events held around the country and attended by the Managing Director, the Finance Director in all but one case and at least one other member of the Board and a member of Council. Auditor arrangements are reviewed periodically to ensure that independence remains (see Audit Committee report below).

THE MANAGEMENT OF RISK

- The Directors are responsible for the management of risk and ensuring that the Society has a sound system of internal control to safeguard its assets and funds. The system of internal control is intended to manage rather than eliminate risks, and to give reasonable rather than absolute assurance. The Society operates a system of internal controls, which are designed to mitigate these risks, and employs a dedicated Risk Manager. This role was defined as part of the strategic review in 2014 and is a recognition of the growing scale and complexity of the organisation. The procedures used by the Directors to monitor the Society and its internal control system include:
- A strategic plan covering a number of years, which is used as the basis for annual planning;
- Annual plans and budgets;
- Regular reporting of actual performance against these plans and budgets;
- Review of the major risks to which the Society is exposed and the steps taken by management to mitigate those risks;
- Compilation and publication of annual social accounts which are approved by the Directors;
- Review and discussion with the external auditors of their audit plans and of the findings arising from their audit;
- Periodic Internal Audit of a limited number of areas of operation of key controls.

As noted above, at least twice a year the Directors review the major risks to which the organisation is exposed, and the measures taken to mitigate those risks. The Directors' most recent annual review of major business risks identified a total of 20 significant risks. The following five of these were categorised as most significant, with the first – Credit Risk, ranked as the highest and the other four equally but likely to be less significant financially. Key mitigations are noted for each risk area:

- **Serious lending loss, caused for instance by the failure of one or more major customers (Credit Risk)**
  A detailed credit proposal enables each new lending risk to be assessed and the credit policy sets prudential limits to spread risk by limiting exposure to certain commodities and countries. Annual reviews of each facility which has been granted then take place. Regular arrears' reviews take place and lead to appropriate support/recovery action. The process for assessing provisions is rigorous and is based on a monthly review of accounts involving the Risk Manager, the Head of Lending and the Finance Director, with the Board taking a final decision as to year-end provisioning following detailed scrutiny by the Audit Committee. The Board continues to keep under review the appropriateness and effectiveness of taking security for lending in certain circumstances and with high visibility through Key Performance Indicator reporting is encouraging greater pro-active management of poor-performing accounts.
- **Insufficient capital**
  Recent growth in lending by the Society as well as the effect of the weaker Pound Sterling means that the Society continues to need to grow its capital. Whilst existing and new members have collectively increased capital by almost £3m in the last year, there remains a risk that when interest rates start to rise, there may be attractive rates offered elsewhere which will divert or slow investment growth for the Society. Considerable effort has been made to improve the ease with which members can invest in the Society and subsequently manage their investment account, including understanding the benefits and risks associated with being a member of the Society. The Directors believe that this approach and a clear message that the Society needs to keep growing its capital year-on-year to further enhance its mission, will mitigate this risk.
- **Exchange rates**
  Since the 2016 UK referendum on membership of the EU, the Pound Sterling has been at historically low levels in relation to the US Dollar and Euro (Shared Interest's main lending currencies). If the Pound Sterling were to weaken further this could again put pressure on the Society in terms of available capital (see risk above). On the other hand, a stronger Pound Sterling means that income earned in foreign currency is not worth as much when translated into Pound Sterling, our operational currency. The latter risk is mitigated by a hedging policy which seeks to protect our budgeted rates of exchange as nearly as possible but this is only ever in the short-term (up to one year) and a perfect hedge is never possible.

- **Competition**
  Competition can come from other lenders offering different products and rates to potential or existing customers as well as from UK deposit takers (banks, building societies etc) who may offer rates which diminish the level of investment into the Society. Whilst the former can present positive opportunities for customers and is therefore generally a positive development, the Society has to retain its delicate balance of raising capital at an appropriate cost and lending to a portfolio of customers which works as far as possible with the most vulnerable without taking excessive risks.
- **Failure of the Fair Trade Market**
  In recent years there have been various well-documented challenges for the Fairtrade Mark and system. Large brands and retailers who have used the Mark have started to operate their own versions of "fair trade" and there is a risk of customer confusion and a dilution of the Fairtrade Mark. Shared Interest will continue to deliver its object (as stated at the top of this Directors' Report) and is indeed currently reviewing its overall strategy for the next period as is regularly the case. However, we know that many of the investors who are members of Shared Interest became so because of our strong position in lending to and working with fair trade organisations and actors around the globe. This has helped us to ensure the social benefit of our lending and distinguish ourselves from peer organisations. A diminution in the scale or perceived integrity of the Fairtrade Mark could therefore have an adverse impact. Whilst there is little that Shared Interest can do directly to reduce the likelihood of this risk, we are considering if there are other certifications on which we could lend to meet our mission and the implications for how we should market ourselves going forward.

The Directors exercise their responsibilities for risk management primarily through receiving and considering at their regular Board meetings reports from management, together with the system of internal controls.

AUDIT COMMITTEE

The Directors have established an Audit Committee. Membership of the Committee during the year comprised David Bowman (Chair), Keith Sadler and Paul Chandler, all independent Non-Executive Directors. The role and main responsibilities of the Audit Committee are set out in its terms of reference, which are available on request and on the Society's website. They include:

- Monitoring the integrity of the financial statements;
- Reviewing the operation of the internal financial control and risk management systems including recommending whether to undertake specific internal audit work;
- Reviewing the independence of the internal and external auditors, and any provision of non-audit services by them;
- Overseeing the internal and external audit process and assessing its effectiveness; and
- Making recommendations to the Board on the appointment and remuneration of auditors.

The Committee normally meets three times each year including space during one meeting with external auditors when management do not attend. During the year, all members of the Committee have attended its meetings. The Committee did not recommend an internal audit of any of the controls operated by the Society this year and none took place. The main piece of extra work undertaken by the Committee was the review of provision of external auditors which was flagged at the end of Directors' Report a year ago.

A tender was held to review the provision of external audit services. A total of 10 firms were contacted including a range of large, medium and small organisations. Whilst a number of these carried out a detailed analysis of Shared Interest and the issues relevant to becoming auditor, only four submitted proposals to a first formal assessment by the Audit Committee, including the current auditor PricewaterhouseCoopers LLP (PwC). Three firms were chosen for the final stage held in July 2017 and the clear recommendation to the Board, from this process, was to retain PwC as auditor to the Society. In considering this recommendation, which the Board supported, it was mindful of the fact that some members have expressed concern that the Society is not able to work with a smaller, local firm of auditors. The scale and complexity of the work of Shared Interest are key factors here, with the Committee concluding that the expertise and experience of PwC staff would bring the most tenacious scrutiny and challenge to the process of ensuring the integrity of the Society's financial statements. The Committee will however continue to review the audit arrangements periodically and remain open-minded about other options.

To enable it to carry out its work, the Committee receives written reports from management, from the external auditor and, occasionally from the internal auditor. These are considered by the Committee and discussed with management and the auditor as appropriate.

REMUNERATION COMMITTEE

The Directors have established a Remuneration Committee. The membership was revised during the year and after the addition of the Chair of the Board now includes Pauline Radcliffe (Chair), Martin Kyndt and Mary Coyle, all independent Non-Executive Directors. (The Chair of the Board withdraws for any business considering their remuneration). The role of the Remuneration Committee is:

- To consider and recommend to the Board the policy for the remuneration of Executive Directors but it is not the remit of this Committee to set the remuneration for Non-Executive Directors other than for the Chair of the Board;
- To consider and determine all matters relating to the remuneration package, including terms and conditions of employment, of Executive Directors;
- To consider and determine the remuneration of the Chair of the Board in the light of policy for the remuneration of Non-Executive Directors;
- To monitor the level and structure of the remuneration package of senior staff below the level of Executive Directors;
- To discuss and recommend proposed average percentage increases for all staff in advance of the Business Plan being submitted to the Board;
- To approve the design of the parameters for performance related pay for Directors and senior management including the total annual payments made under such schemes. There is no such scheme at present;
- To consider any other appropriate matters referred to it by the Board;
- To periodically review the Remuneration Policy and recommend any changes it deems appropriate to the Board for approval.

The total remuneration of Executive Directors, including pension and national insurance payable by the Society, is set out in Note 6.

NOMINATIONS COMMITTEE

The Directors have established a Nominations Committee. Membership normally consists of Mary Coyle (Chair), Patricia Alexander (Managing Director), Keith Sadler, a Non-Executive Director, and one member of the Shared Interest Council. Membership is temporarily varied if the work of the Committee renders involvement of any of the Directors inappropriate for a period of time. This Committee has not been active during the last year as there have been no changes in Board membership.

CREDIT COMMITTEE

The Board has also established a Credit Committee, with a membership consisting of five Directors. These are Mary Coyle (Chair), Patricia Alexander (Managing Director), David Bowman, Pauline Radcliffe and Tim Morgan (Finance Director). The Committee meets when major lending decisions are required between formal Board meetings and considers proposals to extend lending to existing customers or grant new facilities. Two meetings were held during the year.

INDEPENDENT AUDITORS

A resolution to reappoint PricewaterhouseCoopers LLP as external auditor to the Society will be put before the AGM in March 2018 (see above in the Audit Committee section for a detailed explanation of the process of review of the external auditor service provision which has taken place this year).

By Order of the Board

20 December 2017

T D Morgan
Company Secretary

Registered Office:

Pearl Assurance House
7 New Bridge Street West
Newcastle upon Tyne
NE1 8AQ

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SHARED INTEREST SOCIETY LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion, Shared Interest Society Limited's financial statements:

- give a true and fair view of the state of the Registered Society's affairs as at 30 September 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" Section 1A, and applicable law); and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014.

We have audited the financial statements, included within the Directors' Report and Financial Statements, which comprise: the statement of financial position as at 30 September 2017; the statement of comprehensive income for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Registered Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Registered Society's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Registered Society's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Directors' Report and Financial Statements other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Directors' Report, we also considered whether the disclosures required by the UK Co-operative and Community Benefit Societies Act 2014 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 30 September 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Registered Society and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Registered Society's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Registered Society or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
This report, including the opinions, has been prepared for and only for the Registered Society's members as a body in accordance with Section 87 (2) and Section 98 (7) of the Co-operative and Community Benefit Societies Act 2014 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

OTHER REQUIRED REPORTING

Co-operative and Community Benefit Societies Act 2014 exception reporting

Under the Co-operative and Community Benefit Societies Act 2014 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the association; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- a satisfactory system of control over transactions has not been maintained; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Co-operative and Community Benefit Societies Act 2014 we are required to report to you if, in our opinion, the Directors were not entitled to take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

Martin Cross (Senior Statutory Auditor)

for and on behalf of **PricewaterhouseCoopers LLP**

Chartered Accountants and Statutory Auditors

Newcastle upon Tyne 20 December 2017

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 SEPTEMBER 2017

	Notes	2017	2016
		£'000	*£'000*
Income receivable and similar income	2	**3,164**	3,158
Interest payable and similar charges	3	**(492)**	(564)
Net interest income		**2,672**	2,594
Administrative expenses	4	**(1,960)**	(1,934)
Profit before provisions and interest		**712**	660
Provision for doubtful debts	12	**(664)**	(1,212)
Profit / (loss) before taxation		**48**	(552)
Taxation	7	**-**	5
Profit / (loss) for the financial year		**48**	(547)
Interest on share capital	8	**(72)**	(122)
Total comprehensive expense for the year		**(24)**	(669)

The Society's income and expenditure all relate to continuing operations.

The accompanying notes form an integral part of these financial statements.

There is no material difference between the profit / (loss) on ordinary activities before taxation and the profit / (loss) for the financial year stated above and their historical cost equivalents.

STATEMENT OF FINANCIAL POSITION
AT 30 SEPTEMBER 2017

	Notes	2017	2016
		£'000	*£'000*
Non current assets			
Tangible assets	9	**153**	150
Investments	10	**115**	118
Deposits falling due after one year	11	**-**	-
		268	268
Loans and advances to customers	12	**29,918**	30,763
(Including non current assets of £8,564k (2016: £5,605k))			
Current assets			
Cash at bank and in hand		**2,772**	4,331
Deposits with credit institutions	13	**38,049**	37,337
Other debtors	14	**90**	340
		40,911	42,008
Creditors falling due within one year			
Amounts owed to credit institutions	15	**29,501**	34,299
Other creditors due within one year	16	**521**	739
		30,022	35,038
Net current assets		**10,889**	6,970
Total assets less current liabilities		**41,075**	38,001
Creditors falling due after one year	16	**214**	-
Net assets		**40,861**	38,001
Share capital and reserves			
Share capital	17	**39,367**	36,432
Proposed share interest		**70**	121
Profit and loss account	18	**1,424**	1,448
Total reserves	19	**40,861**	38,001

These financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime and in accordance with the provisions of FRS 102 Section 1A – small entities.

The financial statements on pages 11 to 19 were approved by the Board of Directors on 20 December 2017 and signed on its behalf by:

Mary Coyle, Chair

Patricia Alexander, Managing Director

Tim Morgan, Company Secretary

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom.

a. The financial statements have been prepared under the historic cost convention and under the UK accounting policies set out below. The financial statements have been prepared under the going concern basis using consistently applied accounting policies.

b. Recognition of income policy: interest on advances is recognised from the date each advance is drawn until date repaid or until the Board of Directors decide that the loan and interest are irrecoverable. At this time the Board will make a provision for these amounts in the financial statements and stop accruing interest. These provisions are reviewed at each Board meeting and the balance may eventually be written off as a bad debt.

   Fee income charged for the arrangement of lending facilities is credited to the Statement of Comprehensive Income in the year in which the facility is granted. The effective interest rate for the facilities granted to customers is not adjusted to take account of such fees as 80% of our facilities are repayable within one year and the effect of such an adjustment would be immaterial. This ratio will be kept under review and the policy would be reconsidered in the event of this position changing.

c. Interest on loans and bank balances is credited to the profit and loss account as it accrues.

d. Producer rebates recognition policy: at the discretion of the Directors, any risk premium charged to producers may be refunded annually, if that producer has operated their account satisfactorily. If a decision is made to refund risk premium, a provision is made within the accounting period during which the refund accrued.

e. Tangible fixed assets are stated at historic purchase cost less accumulated depreciation. Depreciation has been provided to write off fixed assets on a straight-line basis over their anticipated useful life (3 to 5 years).

f. Exchange rates: Monetary assets and liabilities denominated in foreign currencies are stated in the Statement of Financial Position at the equivalent value in sterling at the exchange rate prevailing at the date of the Statement of Financial Position. Transactions during the year denominated in foreign currencies are stated at their equivalent value in sterling at the exchange rate prevailing at the date of the transaction.

g. A 'social bank' is a deposit-taking institution that employs monies deposited by the Society wholly or mainly in activities which are compatible with the Society's object, in addition to providing a return on investment.

h. Interest on share capital is treated as an appropriation of profits in accordance with the Society's rules.

i. Rentals payable under operating leases are charged on a straight line basis over the term of the lease.

j. Pension contributions: The Society makes payments to a defined contribution pension scheme on behalf of each of its employees who opt to be in the scheme. The pension cost charged in the financial statements represents the contributions payable by the Society during the year.

k. Investments are stated at cost less provisions for any permanent diminution in value. Impairment reviews are performed where there has been an indication of impairment.

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	2017	2016
	£'000	*£'000*
Credit charges	**2,928**	2,653
Transmission charges	**34**	36
Deposit interest	**147**	450
Donations	**55**	19
	3,164	3,158

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2017	2016
	£'000	*£'000*
Bank interest payable	**(427)**	(513)
Transmission costs	**(44)**	(48)
Net exchange losses	**(21)**	(3)
	(492)	(564)

4. ADMINISTRATIVE EXPENSES

	2017	2016
	£'000	*£'000*
Wages and salaries	**1,050**	1,037
Social security costs	**78**	77
Pension costs	**88**	83
	1,216	1,197
Other administrative expenses:		
Other personnel costs *	**31**	45
Occupancy costs	**138**	151
Depreciation (note 9)	**46**	43
Directors' fees	**21**	18
Auditor's remuneration (PwC as auditor)	**20**	20
Other professional fees	**38**	21
Other operating expenses	**450**	439
	1,960	1,934

* Other personnel costs includes other associated costs such as training.

5. EMPLOYEE NUMBERS

The average monthly number of persons employed by the Society (including Executive Directors) during the year was:

	2017	2016
Full-time	**32**	34
Part-time	**1**	1

6. DIRECTORS' REMUNERATION

	2017	2016
Executive:	***£'000***	*£'000*
Patricia Alexander	**74**	73
Tim Morgan (based on 3.5 days a week employment)	**47**	47
Non-Executive:		
Mary Coyle (Chair)	**5**	4
Pauline Radcliffe	**3**	3
Keith Sadler	**3**	3
David Bowman	**3**	3
Martin Kyndt	**3**	3
Paul Chandler	**3**	3
Total costs are as follows:		
Salaries	**121**	120
Non-Executive Directors' fees (as detailed above) and after rounding	**21**	18
Social security costs	**14**	14
Pension costs	**11**	11
Total remuneration	**167**	163

The process for determining the amount of remuneration for Directors is explained in the Remuneration Committee section on page 7.

7. TAXATION

	2017	2016
UK Corporation Tax	***£'000***	*£'000*
Recovery of tax paid on prior period due to loss	**-**	(8)
Adjustment in respect of prior periods	**-**	3
Tax on profit on ordinary activities	-	(5)

The tax assessed for the year is lower (2016: lower) than the standard rate of Corporation Tax in the UK (19%).

Profit / (loss) on ordinary activities before taxation	**48**	(552)
Profit / (loss) on ordinary activities multiplied by 19.5% (being the real rate that would apply when averaged across the year) during the period (2016: 20%)	**9**	(110)
Effects of:		
Differences between capital allowances for the period and depreciation	**4**	(24)
Interest allowable for Corporation Tax	**(14)**	(24)
Income not taxable	**(11)**	(4)
Disallowable costs	**1**	1
Adjustment in respect of prior periods	**-**	(5)
Losses carried forward to future periods	**11**	161
	-	(5)

The small company rate of Corporation Tax in the UK has been 19% with effect from 1 April 2017. Prior to this it was 20% with effect from 1 April 2011.

8. INTEREST ON SHARE CAPITAL

A provision of £70k (2016: £122k) has been made for interest payable to members and for the purposes of these financial statements has been accrued at a rate of 0.25% for 12 months on 70% of year-end balances, after deducting the proportion for which we hold a declaration of waiver. The same basis was used last year. Interest on the share capital of a Registered Society is deductible as an expense for the purposes of Corporation Tax.

	2017	2016
	£'000	*£'000*
Provision at 1 October	**121**	116
Interest paid in year	**(123)**	(116)
Charge for the year	**72**	121
Provision carried forward at 30 September	**70**	121

9. TANGIBLE ASSETS

	2017	2016
Cost	***£'000***	*£'000*
1 October	**247**	233
Additions	**49**	158
Disposals *	-	(144)
30 September	**296**	247
Accumulated depreciation		
1 October	**97**	198
Charge for year	**46**	43
Depreciation on disposals *	-	(144)
30 September	**143**	97
Net book value		
1 October	**150**	35
30 September	**153**	150

* 2016 included the removal of £131k of fully written down assets with nil net book values.

10. INVESTMENTS

At 30 September 2017 the Society had share investments of £115,000 (2016: £118,000). These represent a USD denominated investment in Oikocredit of £91,000 (2016: £94,000) and EUR denominated investments in social banks of £24,000 (2016: £24,000). The movement in value of these investments is predominantly down to exchange differences, the underlying investment values have not changed. The Directors consider the value of the investments to be supported by their underlying assets.

11. DEPOSITS FALLING DUE AFTER ONE YEAR

As at 30 September 2017 and 30 September 2016, The Society had no deposits falling due after one year.

12. LOANS AND ADVANCES TO CUSTOMERS

	2017	2016
	£'000	*£'000*
Repayable:		
In not more than one year	**25,885**	28,859
In more than one year	**8,564**	5,605
Provisions for bad debts	**(4,531)**	(3,701)
	29,918	30,763

Bad debts

The following table explains the bad debt charge and provision for the financial year:

	2016/17	**Explanation (of 2016/17 charges and year-end position)**	2015/16
	£'000		*£'000*
Provision 1 October	3,701		2,183
Released during the year	(198)	Write-offs of brought forward provision	(27)
Year-end provisions (doubtful debts)	450*	Year-end provisions include 32 producer (2016: 29) and 1 buyer (2016: 2) accounts. Newest customer is 1 year with the Society and longest is 21 years. 12 accounts are in America (Central and South), 20 in Africa and 1 in the UK.	1,182*
Adjustment to previous provisions	214*	Amounts added or no longer needed in relation to previous provisions	29*
Income not recognised and effect of currency retranslation	364	Credited to provision rather than income, due to recovery of the customer accounts being doubtful	334
Provision 30 September	**4,531**	Total of 33 accounts represented (2016: 31 accounts)	**3,701**

* These figures, together with a charge of £0k (2016: £1k) relating to write-offs/recoveries during the year, comprise the charge of £664k (2016: £1,212k) in the Statement of Comprehensive Income on page 11.

Provisions are based on an assessment of the recoverability of customer accounts in arrears or with known cashflow problems. Where a provision is deemed to be necessary, because there is an expectation that the Society will not recover the full amount due, a specific impairment charge will be made based on the detail of the account in question. The Society works with customers in arrears and exercises forbearance where possible, seeking to find a resolution which gives time for a customer to trade successfully again. Even when a 100% provision has been allocated and/or a debt has been fully written off the books, efforts continue to recover due amounts until such point as the Society knows that no further recovery is possible.

13. DEPOSITS WITH CREDIT INSTITUTIONS

	2017	2016
	£'000	*£'000*
Repayable:		
In not more than three months	**36,049**	10,300
In not more than one year	**2,000**	27,037
	38,049	37,337

14. OTHER DEBTORS

	2017	2016
	£'000	*£'000*
Amounts due from Shared Interest Foundation	**2**	9
Other debtors	**4**	8
Taxation and social security	**18**	21
Accrued income	**13**	220
Prepayments	**53**	82
	90	340

15. AMOUNTS OWED TO CREDIT INSTITUTIONS

	2017	2016
	£'000	*£'000*
Foreign currency overdrafts / loans with agreed maturity dates:		
In not more than three months	**(29,501)**	(34,299)
	(29,501)	(34,299)

The Society has agreed a facility with its Bank under which it may draw money in certain major currencies at rates linked to inter-bank interest rates, in order to fund its foreign currency advances. The Society is required to maintain as security a cash deposit with the Bank of 100% of the facility amount. A Security Charge in favour of the Bank is in place over these deposits and this is registered at the FCA. In 2016 this facility was structured as loans and in 2017 as overdrafts.

16. OTHER CREDITORS DUE WITHIN ONE YEAR

	2017	2016
	£'000	*£'000*
Taxation and social security	**-**	15
Trade creditors	**50**	53
Unclaimed loan stock	**290**	316
Accruals	**141**	117
Comic Relief loan *	**-**	237
Other creditors	**40**	1
	521	739

* In 2017 the Comic Relief loan outstanding of £214k is reflected in creditors falling due after one year as a two year extension has been agreed.

17. SHARE CAPITAL

	2017	2016
	£'000	*£'000*
1 October	**36,432**	33,289
Receipts	**5,050**	4,914
Withdrawals	**(2,115)**	(1,771)
Net inflow	**2,935**	3,143
30 September	**39,367**	36,432

Shares are withdrawable at six months' notice. During the year Directors continued to exercise their discretion to allow withdrawal on demand. The entitlement of members to the assets of the Society is limited to the shares that they hold in the Society, together with any interest declared by Directors on those shares. The face value of each share is £1. All shares have been issued and fully paid.

18. PROFIT AND LOSS ACCOUNT

	2017	2016
	£'000	*£'000*
Balance brought forward	**1,448**	1,351
(Loss) / profit for the year	**(24)**	(669)
Reserve for lending losses applied	-	766
Balance carried forward	**1,424**	1,448

19. TOTAL RESERVES

	2017	2016
	£'000	*£'000*
(Decrease) / increase in proposed share interest	**(51)**	5
Increase in share capital	**2,935**	3,143
Loss for the year	**(24)**	(669)
Net increase in total reserves	**2,860**	2,479
Total reserves at 1 October	**38,001**	35,522
Total reserves at 30 September	**40,861**	38,001

20. CASH FLOW OF LENDING ACTIVITIES

	2017	2016
	£'000	*£'000*
Cash paid	**(62,246)**	(61,704)
Cash recovered (or written off)	**62,427**	54,662
Net decrease / (increase) in funds loaned	**181**	(7,042))

21. FINANCIAL COMMITMENTS

Financial commitments at the year-end under non-cancellable leases will result in the following payments:

	2017	2016
Land and buildings	***£'000***	*£'000*
Annual commitment for leases expiring:		
One to five years	**43**	43
After five years	**-**	-
	43	43

The Society has a lease on its Head Office location for a 10-year period with a break at five years. The annual commitment shown in the table above reflects the average, annualised payment under the lease to the break point.

22. SUBSIDIARY

The Society is the only member of the charitable company Shared Interest Foundation (SIF). SIF is a company limited by guarantee and registered in England and Wales. SIF's objectives are to advance education and training; and to relieve poverty, sickness and distress in all parts of the world in all respects for the benefit of the public.

Previously the Society and Foundation financial statements were consolidated, however this is not required under FRS 102 1A. In addition the Directors believe that the scale of the result of the Foundation compared to the Society means that consolidation does not provide useful information to a user of these financial statements. The financial statements of the Shared Interest Foundation are available on request to the Company Secretary at the Registered Office which is the same as that for the Society (see the back of this document) and also from the Registrar of Companies or the Charity Commission.

During the year, a charge of £14,000 (2016: £14,000) was paid by the Foundation to the Society in respect of rent and related attributable overheads and a sum of £24,000 (2016: £22,000) was paid by the Foundation to the Society in respect of services to it provided by staff employed by the Society. A sum of £5,000 (2016: £10,000) was also paid by the Society to the Foundation in respect of services provided by the Head of Foundation to the Society as part of the Senior Management Team for the six month period to March 2017.

Income for the Foundation for the year ended 30 September 2017 was £256k (2016: £239k) and expenditure was £223k (2016: £339k) leaving the charity with total funds in the sum of £209k (2016: £177k) at the year-end.

SHARED INTEREST

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Front cover image:
Oranges from Nyame Akwan in Ghana

The Shared Interest Social Accounts are available to download from our website.
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